

**REPORT OF THE AUDITOR-GENERAL TO THE NORTHERN CAPE PROVINCIAL
LEGISLATURE AND THE COUNCIL ON THE KHAI MA MUNICIPALITY**

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of the Khai Ma Municipality, which comprise the statement of financial position as at 30 June 2011, and the statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, a summary of significant accounting policies and other explanatory information, as set out on pages xx to xx.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2010 (Act No. 1 of 2010 as amended) (DoRA), and for such internal control as management determines necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-General's responsibility

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996) and section 4 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), my responsibility is to express an opinion on the financial statements based on my audit.
4. I conducted my audit in accordance with International Standards on Auditing and *General Notice 1111 of 2010* issued in *Government Gazette 33872 of 15 December 2010*. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
6. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Opinion

7. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Khai Ma Municipality as at 30 June 2011, and its financial performance and cash flows for the year then ended in accordance with SA Standards of GRAP and the requirements of the MFMA and DoRA.

Emphasis of matters

8. I draw attention to the matters below. My opinion is not modified in respect of these matters:

Unauthorised expenditure

9. The municipality incurred unauthorised expenditure of R209 674 due to overspending on municipal votes. This was disclosed in note 49.1 to the financial statements.

Irregular expenditure

10. Irregular expenditure of R7 265 251, as disclosed in note 49.3 to the financial statements, was incurred due to the following reasons:
- Goods and services amounting to R5 609 311 were acquired in contravention of the Supply Chain Management (SCM) Regulations.
 - DoRA grants amounting to R1 424 233 were applied to defray operating expenses.
 - Payments amounting to R231 706 were made to an employee without a valid employment contract.

Significant uncertainties

11. With reference to note 58 to the financial statements, the municipality did not have a permit for four landfill sites. In terms of the National Environmental Management: Waste Act of South Africa, 2008 (Act No. 59 of 2008), penalties amounting to R10 million per landfill site can be imposed.

Additional matters

12. I draw attention to the matters below. My opinion is not modified in respect of these matters:

Material inconsistencies in other information included in the annual report

13. As the 2010-11 annual report had not been received at the date of this report, a conclusion could not be drawn on the consistency between the financial statements and audit report with other information included in the annual report.

Unaudited supplementary schedules

14. The supplementary information set out in annexures A to C does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

15. In accordance with the PAA and in terms of *General notice 1111 of 2010*, issued in *Government Gazette 33872 of 15 December 2010*, I include below my findings on the annual performance report as set out on pages ... to ... and material non-compliance with laws and regulations applicable to the municipality.

Predetermined objectives

16. I was unable to conduct the audit of performance against predetermined objectives, as the municipality did not submit its annual performance report, as required by section 46 of the Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000) (MSA) and section 121(3)(c) of the MFMA.

Usefulness of information

The following criteria are relevant to the findings below:

- Measurability: Indicators are well defined and verifiable, and targets are specific, measurable and time bound.

Audit findings:

Planned and reported measures not verifiable

17. For all programmes, valid performance management processes and systems that produce actual performance against the planned measures did not exist for 100% of the measures.

Compliance with laws and regulations

Annual financial statements, performance report and annual report

18. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements in irregular expenditure, contingent liabilities and depreciation by the auditors were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.
19. The annual performance report for the financial year under review was not prepared as required by section 46 of the MSA and section 121(3)(c) of the MFMA.

Budgets

20. The municipality incurred expenditure that was in excess of the limits of the amounts provided for in the votes in the approved budget, in contravention of section 15 of the MFMA.

Audit committee

21. The municipality did not establish an audit committee, as required by section 166(1) of the MFMA.

Internal audit

22. The internal audit unit did not function as required by section 165(2) of the MFMA, in that:

- the internal audit unit did not prepare a risk-based audit plan and an internal audit programme for the financial year under review
- the internal audit unit did not report to the audit committee on the implementation of the internal audit plan
- the internal audit unit did not advise the accounting officer on matters relating to internal audit, internal controls, accounting procedures and practices, risk and risk management as well as loss control.

23. Contrary to section 62(c) of the MFMA, the municipality did not ensure that a risk assessment process was implemented at the municipality and consequently did not perform a risk assessment.

Expenditure management

24. The accounting officer did not take reasonable steps to prevent unauthorised and irregular expenditure, as required by section 62(1)(d) of the MFMA.

25. Contrary to section 65(2)(e) of the MFMA, the municipality did not pay its suppliers within 30 days from the date of receipt of an invoice.

Procurement and contract management

26. Goods and services of a transaction value above R200 000 were procured without inviting competitive bids as per the requirements of SCM regulation 19(a) and 36(1).

Human resource management

27. The municipal manager did not provide job descriptions for each post on the staff establishment, as required by section 66(1)(b) of the MSA.

Strategic planning and performance management

28. The municipality did not adopt a framework that describes and represents how the municipality's cycle and processes of performance planning, monitoring, measurement, review, reporting and improvement will be conducted, organised and managed, including determining the roles of the different role players as required by sections 38, 39, 40 and 41 of the Municipal Systems Act and Municipal Planning and Performance Management Regulations 7 and 8.
29. The municipality did not develop and implement mechanisms, systems and processes for auditing the results of performance measurement as part of its internal audit processes as required by section 45(1)(a) of the Municipal Systems Act and Municipal Planning and Performance Management Regulation 14.
30. The internal audit processes and procedures did not include assessments of the extent to which the municipality's performance measurements were reliable in measuring the performance of the municipality on key as well as general performance indicators as required by Municipal Planning and Performance Management Regulation 14.
31. The internal auditors of the municipality did not audit the performance measurements on a continuous basis as required by Municipal Planning and Performance Management Regulation 14.

32. The municipality did not appoint and budget for a performance audit committee, nor was another audit committee utilised as the performance audit committee as required by Municipal Planning and Performance Management Regulation 14.

INTERNAL CONTROL

33. In accordance with the PAA and in terms of *General Notice 1111 of 2010* issued in *Government Gazette 33872 of 15 December 2010*, I considered internal control relevant to my audit, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters reported below are limited to the significant deficiencies that resulted in the findings on the annual performance report and the findings on compliance with laws and regulations included in this report.

Leadership

34. The council did not ensure that a performance management framework was adopted and implemented.
35. The accounting officer did not ensure that adequate systems were implemented and monitored to prevent and detect irregular expenditure, unauthorised expenditure and non-compliance with laws and regulations.

Financial and performance management

36. Management did not properly review the financial statements, which resulted in material amendments to the financial statements to ensure its fair presentation.
37. In the absence of appropriate GRAP training to the finance staff, management appointed external service providers to compile the financial statements.
38. The failure of council to adopt a performance management framework resulted in management not submitting an annual performance report.
39. There were deficiencies in the design and implementation of internal control in respect of compliance with applicable laws and regulations.

Governance

40. The internal audit unit did not follow a risk-based approach in selecting components to be audited or a systematic method to select samples. The internal audit unit did not perform activities to identify internal control deficiencies and recommend corrective action to management.
41. The accounting officer did not implement appropriate risk management activities to ensure that regular risk assessments, including consideration of IT risks, were conducted and that a risk strategy to address the risks was developed and monitored.
42. The council did not establish an audit committee to enhance oversight over the effectiveness of the internal control environment, due to insufficient funding.

Auditor General
Kimberley

30 November 2011



AUDITOR - GENERAL
SOUTH AFRICA

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